DEBT CEILING: OVERVIEW AND FAQ

Overview

When you don’t pay off your entire credit card bill at the end of the month, you increase your personal “debt ceiling.” You don’t need an act of Congress to do it; America does. Most Americans fail to pay their entire bill every month, just like Uncle Sam. This doesn’t make it right, just normal.

Your personal debt-ceiling decision depends on how much you owe. If it’s a small amount, you can tighten your belt. If you owe a lot, you could face starvation if you cut back too much. How much is the U.S. credit card bill? Just to get through the next five months, America must come up with at least $738 billion. That’s roughly $2,460 for every American. Refusing to borrow any more money may seem responsible, even virtuous, in the short run, but it could create a massive economic crisis. Because of our economic recession, this is one of the worst times in history to pay off our bill immediately and tear up our nation’s credit card.

Frequently Asked Questions

What is the debt ceiling?

The debt ceiling is the maximum amount the U.S. government is allowed to borrow to meet its commitments to pay for Social Security and Medicare benefits, veterans’ services, schools, job-training programs, and more.

Why do we need to raise the debt ceiling?

In theory, the debt ceiling is in place to help Congress control spending and place an upper limit on government spending. Because the federal government has only run four budget surpluses since 1969, we need for tougher budgetary enforcement and spending measures. The fact remains, however, that if the debt ceiling is not increased, the Treasury Department may not borrow any additional money. Cutting off our credit could have drastic consequences. We use that borrowed money to pay for educational and job-training programs, and essential services for veterans and seniors.

Has the debt ceiling been raised before?

Yes. The first debt ceiling raise was in 1917, and we have seen countless raises since then – by members of both political parties and under both Republican and Democratic presidents. In fact, the debt ceiling has been raised 10 times over the last decade alone. The Treasury Department estimates the debt ceiling will be reached by mid-May 2011, although the Treasury can probably delay default until early August 2011.

What happens if we don’t raise the debt ceiling?

The U.S. would default on our current obligations – an unprecedented and tragic event. The government would not be able to make payments to our creditors, contractors, and employees, causing a ripple effect throughout the domestic and world economies. The U.S. stock and bond markets are likely to react violently. The credit rating of the U.S. would be lowered, leading to higher interest rates. Higher interest rates mean the cost of borrowing money goes up for government as well as for our businesses and citizens. For the government, higher interest rates mean the debt and deficit will further increase, as the U.S. will become a less attractive place for foreigners to invest. Businesses will have a more difficult time securing loans due to the increased costs of investing and expanding, which would depress our nation’s economic growth. Individuals will see home mortgage, car loan, and credit card rates rise. The stock markets are also likely to drop substantially, causing large losses in business capital and retirement benefits for individuals.

On April 18, 2011, one of the leading rating agencies, Standard & Poor’s, cut the U.S. ratings outlook to “negative,” increasing the likelihood of a potential downgrade from its triple-A rating, due to the uncertainty over budget deficits and the debt ceiling.

Can we take steps to avoid this anticipated debt ceiling increase?

Just to get through the next five months, America must come up with at least $738 billion. Where do we find $738 billion right now? There is no good, quick way to find it without more borrowing. Look at the options in the chart below. Slash “mandatory” programs like Social Security, Medicare, Medicaid, or veterans’ benefits (55% of all government spending)? Quick cuts risk hurting seniors and our nation’s veterans.

How about cutting defense? Even eliminating the entire Defense Department would not produce enough savings, so why embolden our enemies? Interest payments on our debt cannot be cut without declaring national bankruptcy. The only thing left is the rest of government, i.e., “nondefense discretionary” programs – roads, parks, schools, job training, energy research and development, etc. – which could be decimated without producing $738 billion in savings. Remember, Congress was recently fighting over just $39 billion in savings for the next five months. Larger cuts are possible, but $738 billion is completely unrealistic.

Where to Cut

The debt ceiling debate is about the past: money America has already spent but not financed. Real debates are about America’s future: making the hard choices that are needed to spend less money, make government efficient, and getting better results for your tax dollars.

In order to solve our long-term fiscal challenges, we have to do so in a bipartisan manner. We need broad agreement because the cuts will affect everyone. Everything must be on the table – spending as well as revenue. It will take time – and a higher credit limit – to get America back on track.

For more information, see: http://assets.opencrs.com/rpts/RL31967_20100128.pdf